Testimony of Monty Schilter, Northwest Dairy Association

RE: Class I Differentials

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My name is Monty Schilter. I am testifying today on behalf of Northwest Dairy Association, which is usually referred to as "NDA." My title is Senior Vice President of NDA. I am responsible for leading the NDA members services team and lead matters pertaining to Federal Orders. I have been an employee of NDA for over 15 years and have worked milk pricing and Federal Orders under the direction of Dan McBride for a majority of those years.

NDA is a cooperative marketing the milk of approximately 295 dairy farmers in Washington, Oregon, Idaho, and Montana. Approximately 240 of our producer members are part of the Pacific Northwest Federal Milk Marketing Order (Order 124). Approximately 45 producers are located in the unregulated area of Eastern Oregon and Southwest Idaho. Approximately 10 producers are located in state regulated Montana.

NDA conducts all processing and marketing operations through a wholly owned subsidiary, known as Darigold. Darigold is a fluid milk processor in the Northwest region. Darigold operates three fully regulated pool distributing plants in Order 124 (Seattle and Spokane, Washington and Portland, Oregon), one partially regulated pool distributing plant in Boise, Idaho and one unregulated bottling plant in Bozeman, Montana. Darigold operates fully regulated pool manufacturing plants that dry milk products located in Lynden, Chehalis, and Sunnyside Washington and one unregulated plant in Jerome, Idaho that dries milk products. Darigold also operates a fully regulated pool manufacturing plant in Sunnyside, Washington that produces cheese and whey and operates two butter plants in Issaquah, Washington and Caldwell, Idaho.

NDA would like to thank USDA for their timely response to the hearing request by NMPF and others. We appreciate the opportunity to address the important issue of updating the Federal Order Class I Differentials at this hearing.

I am testifying on behalf of NDA in support of the Class I Differentials as submitted by NMPF in Proposal 19 for the States of Washington, Oregon, Idaho and Montana. I will describe the reasoning why the differentials submitted vary from the U.S. Dairy Sector Simulator or USDSS model submitted by the University of Wisconsin, Madison authors in the report titled "Spatial Price Relationships in Class I Markets". The points I will support today are the importance of regional competitiveness at the farm level, continued incentives to service Class I markets in the rapidly changing landscape of the dairy industry in the Pacific Northwest, and geographic and population influenced cost drivers in the Pacific Northwest.

Regional competitiveness at the farm level needs to be maintained in areas and regions similar to each other across the United States. The Pacific Northwest, specifically around King County, Washington, operates similarly to the urban parts of Federal Order 32 so I looked to those areas for comparison. As it was back in 2000, King County, Washington has continued to be a large population center in the Pacific Northwest ;therefore I looked at continuing to use King County as the base and attempt to mirror differential values in the Midwest population centers. With the USDSS Model proposal for Federal Order 32 going from $1.85/cwt up to the $3.00/cwt - $3.30/cwt ranges near population centers, the increase from $1.90/cwt to $2.40/cwt in King County didn't seem equitable. The differential in King County should be at least the minimum of the range so $3.00/cwt was used as the base. Regional competitiveness also needs to occur within the Pacific Northwest and the simplicity of the USDSS model in 2000 established 3 differential values that decreased by $0.15/cwt as you moved away from the population centers. The updated USDSS model was similar in how the zones were shaped but complex enough that I leaned to a more familiar and simpler concept produced by the USDSS model from 2000. Additionally, regional competitiveness needs to remain on the I-5 corridor. Within the PNW, there are geographical features and significant distances that separate the I-5 corridor from the rest of the order (west of the Cascade Mountain Range between the Canadian and California border). The area represents the vast majority of the pool distributing plants. Eight of the 12 pool distributing plants are within the Seattle and Portland metro areas. All pool distributing plants in this region should compete on a level playing field thus a similar differential should be maintained across these pool distributing plants.

The Pacific Northwest much like other urban areas in the United States is rapidly changing. It is an area of population growth and declining milk production. According to US Census data, from 2000 to 2020, the population in Seattle, Washington increased from 3.04 million people to 4.02 million people. For the same time period in Portland, OR, population increased from 1.93 million people to 2.51 million people. Combined, the regions grew by more than 30% in 20 years. This doesn't include the surrounding areas where growth was also occurring at similar or increased percentages. At the same time, the dairy industry and milk production in this region has been declining.

According to Federal Order 124 Market Administrator data from December 2001, in the counties along the I-5 corridor, there 794 farms producing 400 million pounds of milk. In those same counties in March of 2023 there 261 farms producing 242 million pounds of milk. It represents a 67% drop in farms and a 39% drop in milk production in just over 20 years—the same time period in which this region grew its population by over 30 percent.

Additionally, the decline in milk production along the I-5 corridor has accelerated over the last 5 years as we have gone from 398 farms producing 294 million pounds of milk to 261 farms producing 242 million pounds of milk, representing a 34% drop in farms and a 17% drop in milk production over just the last 5 years.

The numbers continue to point to the fact that servicing the pool distributing plants along the I-5 corridor will increasingly need to be satisfied by manufacturing plants located 200 miles or more away. Further, we are in the process of building a manufacturing plant in Pasco, Washington that upon startup will demand more milk than will be available for the pool distributing plants and due to the costs associated with operating the new Pasco facility, it will be interesting to see which plant the available milk will flow into.

Next, I will speak briefly about transportation costs to service the pool distributing plants in Seattle and Portland. The majority of the milk that does and will continue to service the pool distributing plants comes from Eastern Washington and specifically, Moses Lake and Sunnyside, Washington. Internal freight data paid to haulers to assemble a load of milk and deliver it to either Seattle or Portland has gone from $1.00/cwt in 2008 up to $2.10/cwt in 2023. That is an

increase of $1.10/cwt in 15 years. In order to service the two markets of Portland and Seattle, it involves mountain passes that can be severely impacted by winter weather. The majority of the years I have worked with NDA, we have experienced at least 2 days or more per year when the passes are closed and impassable and has resulted in our farms having to dump milk since we physically are unable to get it to market. As the population continues to grow in these regions, it causes an increase in transportation congestion. Driving in and out of Seattle and Portland adds time and costs to servicing the pool distributing plants.

To speak more specifically about the differentials by county for Washington, Oregon, Idaho and Montana, I will break it down moving west to east. As stated earlier, for the counties located in Federal Order 124, I kept the zones the same as the 2000 version of the USDSS and using King County, Washington as the base at a recommendation of $3.00/cwt, I kept the same spread of $0.15/cwt for the counties east of the Cascade Mountains. It's worth pointing out that the counties in and around Spokane are at the same $3.00/cwt differential as King County since that was the original relationship. In likely insignificant counties where there is and has not been milk production for years, the differential is recommended to go down to $2.50/cwt. Moving into unregulated Idaho, I proposed a very simple approach. In likely insignificant counties where there is and has not been milk production for years, the differential went to $2.20/cwt, which I believe correlates to the lowest differentials of the NMPF proposal. For areas with milk production, I treated them similar to South Dakota at the NMPF proposal of $2.55/cwt. As for state regulated Montana, all counties were treated similar to South Dakota at $2.55/cwt as well. South Dakota was used as the benchmark comparison due to the fact that these are all areas with significantly higher milk production vs. population and fluid milk bottling facilities.

In summary, NDA supports the Class I Differentials as submitted by NMPF in proposal 19 and specifically for the States of Washington, Oregon, Idaho and Montana. The Federal Order should promote regional competitiveness at the farm level across the US and within various regions and it needs to continue to show incentives for farms to be economically viable to service Class I markets in the rapidly changing landscape of the dairy industry and the evolving conditions in each regional territory.